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# No. 12,621

IN THE

# United States Court of Appeals

For the Ninth Circuit

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TAYLOR ENGINES, INC., et al.,
*Appellants,*

vs.

ALL STEEL ENGINES, INC., et al.,
*Appellees.*

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## Opening Brief for Appellants



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## SUBJECT INDEX

STATUTES



TEXTS

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### I.

### STATEMENT OF THE PLEADINGS AND FACTS CONFERRING JURISDICTION

The original jurisdiction of the subject matter of this action, acquired by the district court, arises by virtue of the provisions of the New Judicial Code, as follows:

> "The district courts shall have original jurisdiction of any civil action or proceeding arising under any

Act of Congress relating to patents, copyrights and trademarks * * *"

28 U.S.C.A. 1338(a)

The jurisdiction of the district court over the parties to this action is acquired by virtue of the provision of the New Judicial Code which specifies that:

"Any civil action for patent infringement may be brought in the judicial district where the defendant resides, or where the defendant has committed acts of infringement and has a regular and established place of business."

28 U.S.C.A. 1400(b)

That portion of the pleadings which alleges facts sufficient to show the existence of the jurisdictional powers conferred by the above quoted statutory provisions consists of paragraph III of the complaint (Rec. p. 4); paragraph X of the complaint (Rec. p. 7) and paragraph III of the Answer (Rec. p. 16).

The United States Court of Appeals for the Ninth Circuit, the present forum, acquires jurisdiction of this appeal by virtue of the following provisions of the New Judicial Code:

"The court of appeals shall have jurisdiction of appeals from all final decisions of the district courts of the United States. * * *"

28 U.S.C.A. 1291

"The courts of appeals shall have jurisdiction of appeals from: * * *

"Judgments in civil actions for patent infringement which are final except for accounting."

28 U.S.C.A. 1292 (4)

The notice of appeal (Rec. p. 145); certificate of the clerk to record on appeal (Rec. p. 147); and the statement of points on appeal (Rec. pp. 149-151) constitute the pleadings conferring jurisdiction of this cause upon this Court of Appeals.

## II.

## STATEMENT OF THE CASE AND QUESTIONS INVOLVED

This action was brought by the plaintiffs against the named defendants for alleged infringement of United States Letters Patents, Nos. 2199423, 2275478 and 2341488.

The plaintiff, All Steel Engines, Inc. claim exclusive patent rights from the original patentees of patent No. 2199423 by virtue of a written instrument executed on September 18, 1940 which, it is alleged, by it terms vested exclusive rights in All Steel Engines, Inc. under the subsequently issued patents 2275478 and 2341488.

For answer, all of the defendants, except Lloyd M. Taylor who did not answer nor appear, averred that they were tenants in common with the plaintiff, George A. Selig, of all of the patent rights to patents 2199423 and 2275478 and, further, that they were sole owner of the entire right, title and interest to patent No. 2341488; and that from the inception of their acquisition of title to the said patents, as aforesaid, and at all times herein mentioned, they were bona fide purchasers for value from the sole inventor, Lloyd M. Taylor, without notice of the alleged exclusive rights of the plaintiff, All Steel Engines, Inc.;

For further answer, the above named defendants denied that they were parties or in privity with any parties to any prior court action involving patent rights to the patents in suit and, hence, denied the plea of title by res adjudicata in plaintiff, All Steel Engines, Inc.

Moreover, the named defendants, except Lloyd M. Taylor, traversed and denied the alleged rights of the plaintiff, All Steel Engines, Inc., in the three patents in suit and also denied the infringement charges made by the plaintiffs.

## III.

## SPECIFICATION OF ERRORS

The errors assigned by these appellants from the decision of the court below are set forth in Volume I of the Transcript of Record, (Rec. pp. 149-151) which embrace errors in the Findings of Fact and Conclusions of Law and are, more particularly, as follows:

1. As to *Finding of Fact 3.* (Rec. pp. 47-48), the court erred in finding that the appellant, Taylor Engines, Inc., had committed and were committing acts of infringement as charged;

2. As to *Finding of Fact 4.* (Rec. p. 48), the court erred in finding that the appellants, Ernest L. Smith, Alfred W. Gorman, Theodore B. Brown, James A. Gorman and Alan S. Brotherhood have participated and still are participating in the acts of infringement charged;

3. As to *Finding of Fact 7.* (Rec. pp. 49-50), the court erred in finding that the purported exclusive license to the appellee corporation included any and all changes and improvements in said invention or the mode of using the same; and also erred in finding that said exclusive license is in full force and effect;

4. As to *Finding of Fact 8.* (Rec. p. 50), the court erred in finding that the invention set forth and described in patent number 2341488 represents an alteration, change and/or improvement of the invention set

forth and described in patents 2199423 and 2275478, and also erred in finding that the appellee corporation is entitled to the sole and exclusive benefit of said patent 2341488, as against these appellants, and each of them, their successors, administrators and assigns;

5. As to *Finding of Fact 10.* (Rec. pp. 50-52), the court erred in finding that on or about April 24 ,1941, the appellants Ernest L. Smith, Alfred W. Gorman and Theodore B. Brown, well knew the rights secured to the appellee corporation; also that the court erred in finding that these appellants accepted an assignment from Lloyd M. Taylor of his interests in the patents in suit after notice of the rights of appellee corporation; also that the court erred in finding that Taylor, Brown, Smith and Alfred W. Gorman previous to April, 1941, negotiated with plaintiffs-appellees to acquire appellee corporation's exclusive license, and also erred in finding that these appellants had knowledge of the exclusive rights of appellee corporation and that exclusive rights of any character belonged to appellee corporation;

Also as to *Finding of Fact 10,* the court erred in findings that these appellants, in forming the appellant corporation and in purporting to grant patent rights thereto, was for the purpose of defrauding the appellees and infringing upon the patent rights of appellee corporation. Also, the court erred in finding that these appellants, and each of them, have infringed and now are infringing upon exclusive patent rights of appellee corporation;

Also as to *Finding of Fact 10,* the court erred in finding that the appellant corporation unlawfully

granted rights under the patents in suit to Crosley Motors, Inc., and that any and all gains and profits that may be derived from any contract with Crosley Motors, Inc. vests in the appellee corporation;

6. As to *Finding of Fact 11.* (Rec. p. 52), the court erred in finding that these appellants' conduct with respect to the patents in suit was wilful and part of a conspiracy to break down and render valueless the property of appellee corporation;

7. As to *Finding of Fact 14.* (Rec. p. 53), the court erred in finding that the evidence clearly disclosed that these appellants were the real parties in interest in proceeding number 302607, filed on or about May 29, 1941 in the Superior Court of the State of California, in and for the City and County of San Francisco, and that any judgment secured by Lloyd M. Taylor therein would have inured to the benefit of these appellants. Further, as to Finding of Fact 14, the court erred in finding that the aforesaid Superior Court action was initiated for the purpose of depriving appellee, All Steel Engines, Inc., of exclusive rights acquired by purported exclusive license from George A. Selig and Lloyd M. Taylor;

8. As to *Finding of Fact 15.* (Rec. p. 54), the court erred in finding that the appellee corporation did not acquiesce in any rights asserted by these appellants to any of the patents in suit, and further erred in finding that the appellee corporation was not guilty of laches;

9. As to *Finding of Fact 16.* (Rec. p. 54), the court erred in finding that the exclusive license granted by George A. Selig and Lloyd M. Taylor to All Steel Engine Company, Inc., *a California corporation,* was

abandoned by an instrument dated November 1, 1940. Further, *as to Finding of Fact 16,* the court erred in finding that by an instrument dated September 18, 1940, George A. Selig and Lloyd M. Taylor granted to All Steel Engines, Inc., *a Nevada corporation,* exclusive license in connection with the patents in suit, and further erred in finding that ever since September 18, 1940, the appellee corporation has been and still is the lawful owner and holder of an exclusive license under the patents in suit;

10. As to *Finding of Fact 17.* (Rec. p. 55), the court erred in finding that the appellees have not at any time violated or interfered with the rights of the appellants, or any of them, in connection with the patents in suit. Further *as to Finding of Fact 17,* the court erred in finding that the appellants acted in violation of the rights of the appellees and with knowledge thereof and for the purpose of infringement of the patent rights of the appellee corporation, and damaging said appellee corporation;

11. As to *Finding of Fact 18.* (Rec. p. 55), the court erred in finding that the plaintiffs were entitled to a judgment against the defendants and to a writ of injunction perpetually restraining the defendants from infringing from the patents in suit and for an accounting of profits realized by the defendants, and the appointment of a master to such end, and further erred in finding that the plaintiffs were entitled to recover their costs;

12. As to *Conclusion of Law 1,* the court erred in concluding that the appellee, George A. Selig, is the

owner of a valid and subsisting undivided one-half (½) interest in and to patent number 2341488;

13. As to *Conclusion of Law 2,* the court erred in concluding that the appellee corporation is the owner of a valid and subsisting exclusive license to manufacture, have made, make, use, sell, deal in and with engines and/or constructions under letters patent of the United States, numbers 2199423, 2275478 and 2341488, and in and to any and all alterations, changes, modifications, improvements or substitutions thereof;

14. As to *Conclusion of Law 3,* the court erred in concluding that the claims of each of the defendants below are invalid and void, and further erred in concluding that the plaintiffs below are entitled to a writ of injunction perpetually restraining defendants, and each of them, from infringing on said patents;

15. As to *Conclusion of Law 4,* the court erred in concluding that the plaintiff, All Steel Engines, Inc., a Nevada corporation is entitled to an accounting of any and all profits realized by the defendants or that might inure to the benefit of defendants, or any one of said defendants, in consequence of the infringement of said letters patents by said defendants, or any one of them, or by reason of any contract made with Crosley Motors Inc., or any other person or persons in connection with said patents, or any profits that might otherwise arise, and to this end a master be appointed. Also, the court erred in concluding that the plaintiffs are entitled to recover their costs.

16. The court erred in admitting in evidence, over the objection of these appellants and by its denial of appellants' motion to strike from the evidence, the

State court decisions in the case of *Lloyd M. Taylor v. George A. Selig, All Steel Engine Company, Inc., et al.,* being proceedings 302607 in the Superior Court of the State of California, in and for the City and County of San Francisco (Book of Exhibits, Vol. II, Trans. of Rec. pp. 225-227), as well as being appeal numbered SF 17139 of the same proceedings (Book of Exhibits, Vol. II, Trans. of Rec. pp. 228-241, inclusive). The admissibility for such state decisions was objected to on the following grounds urged at the trial:

> "Mr. White: If Your Honor please, I object to the introduction of this document on behalf of the defendants, Taylor Engines, James Gorman, A. W. Gorman, Ernest Smith, Mervin Brown, because no foundation has been laid to show that that action involved the defendants that we represent." (Rec. p. 141), * * * and the effect of judgment Section 1908 Code of Civil Procedure of the State of California.";

the full substance of the evidence erroneously admitted being set forth in Vol. II, Book of Exhibits, Trans. of Rec. pp. 225-227 and pp. 228-241.

17. The court below erred in denying the motion of defendants, except Lloyd M. Taylor, to strike from the plaintiffs' reply brief on final hearing the after-acquired title doctrine first presented by plaintiffs below in their reply brief on final hearing (Rec. pp. 38-42).

## IV.

## ARGUMENT

### 1. Summary

It is the earnest belief of the appellants that the questions presented on this appeal are largely questions involving the correct application of well established principles of patent law and general law. If the trial court had correctly applied these principles of law to the uncontroverted facts, a finding that the appellants were the owners of a one-half interest in the first two letters patent in suit and the sole owner of the third patent would have resulted and the further finding would have been made that as such owners it could not be held that the appellants were infringers, as well as a finding that no devices embodying the disclosures claimed in the said patents had been made or were caused to be made by these appellants, would all have been inevitable.

That a part owner or co-owner of a patent may not bring an action for infringement against his co-owner is a well established principle of patent law.

That the appellants were such co-owners of patents numbered 2199423 and 2275478 (the first two patents in suit) with the appellee George A. Selig, at all times appellants were alleged to have infringed upon these letters patent, is clearly established by the record.

It is also well established by the record that the appellee corporation (All Steel Engines, Inc.) has no interest whatsoever in these letters patents.

Briefly outlined, the chain of title to these said patents which establishes that the appellants are co-owners of the two patents, and that the appellee corporation is a stranger and has no capacity to sue is as follows:

*April 17, 1937:* Lloyd M. Taylor, the sole inventor, assigned to George A. Selig a ½ undivided interest to said patents. The latter was to finance and promote the invention as consideration for this ½ interest (Rec. pp. 169-171).

*March 23, 1940:* Taylor and Selig assigned their respective rights in these patents to the All Steel Engine Company, Inc., a *California* corporation (not a party to this action). This corporation was organized by Selig and represented to Taylor by him as being capable of carrying out Selig's obligations under the above referred to April 17, 1937, assignment. Jesse M. Whited was president and Harry G. Selig (George Selig's father) was Secretary-Treasurer. This last mentioned fact is most significant and its subsequent importance cannot be too strongly stressed (Rec. pp. 255-256).

*September 18, 1940:* Taylor and Selig executed an agreement whereby they *purported* to assign to the appellee All Steel Engines, Inc., a *Nevada* corporation, the same identical interest that they had assigned to the California corporation by the assignment referred to in the preceding paragraph (Rec. pp. 172-175).

The appellee corporation was hastily organized on July 17, 1940, under the laws of Nevada as the California corporation was having great difficulty raising funds by selling stock because of the corporate laws of this State (Rec. pp. 66-67).

The president and secretary-treasurer of this Nevada corporation were the same as for the California corpo-

ration, namely, Jesse M. Whited and Harry G. Selig, respectively.

It should be pointed out here that by the assignment to the California corporation, that corporation had the right to assign all its rights to these patents directly to the Nevada corporation had that been the desire of the officers Jesse M. Whited and Harry G. Selig. This was not done because it was the intention of the Seligs to have the records of both these corporations show that each held the rights to these patents so that whenever it was to their advantage to hold out that the California corporation had such right they could do so and the converse could be shown with respect to the Nevada corporation if that was desired. Hence this abortive assignment of September 18, 1940.

Further, that it was not the intention of the Seligs to abandon the California corporation upon the formation of the Nevada corporation is not only established by the above fact that the California corporation did not transfer its rights to these said patents to the Nevada corporation, but also by the fact that as late as January 5, 1941, the California corporation was holding meetings and carrying on activities (Rec. pp. 88-89). Also, as late as May 29, 1941, the California corporation was a party to a State court action in which it received a favorable decision on September 8, 1943.

*November 1, 1940:* Taylor secured a re-conveyance of all the interest he had conveyed to the California corporation on March 23, 1940 (Rec. pp. 255-256).

This re-conveyance was made upon the demand of Taylor because it became apparent to him in October,

1940, following the issuance of an aviation magazine wherein appeared an article based upon information given out by the appellee, George A. Selig, making greatly exaggerated claims for the invention and its stage of development and manufacture for the purpose of attracting investment capital (Rec. pp. 265A).

All of which not only clearly established that Selig was unable successfully to finance and promote the invention as he represented to Taylor, but that there was a more than slight possibility that violations of the Corporate Security Act had been or were about to be committed (Rec. pp. 115-116).

And, as stated above, it was not necessary to have a re-conveyance from other than the California corporation to comply with Taylor's demand of the return of his ½ interest. Whited and Harry Selig, as the officers of both Selig corporations, knew the Nevada corporation took nothing under the abortive September 18, 1940, assignment, hence they executed only the re-conveyance of November 1, 1940, on behalf of the California corporation in order to place Taylor in status quo as of March 23, 1940.

*April 24, 1941:* Taylor assigned a ¼ undivided interest (or one-half of his ½ interest) in these first two patents to the appellants Ernest L. Smith, A. W. Gorman and Theodore B. Brown (Rec. p. 258).

This assignment was the culmination of the efforts of Ernest L. Smith to interest investment in Taylor's ½ interest following Taylor's advices to Smith, supported by the November 1, 1940, reconveyance, that he had regained his (Taylor's) ½ interest (Rec. pp.

118, 127). (Smith's testimony under Rule 43(B)). Further, these representations of Taylor with respect to this reconveyance were substantiated by the conduct, language and silences on the part of the appellees and other persons representing them, including their present counsel, Fred Watkins (Rec. p. 127). This is particularly true of a certain meeting held on March 6, 1941, discussed in detail below. Suffice it to summarize this phase by pointing out that not at any time between November 1, 1940, to the date of this assignment of April 24, 1941 (or, as a matter of fact it was not until shortly after the appellant Taylor Engines, Inc. was successful in negotiating the Crosley agreement (Rec. p. 240)) did the appellees make any claim of infringement against these appellants or advise that the appellees disputed the fact of the reconveyance to Taylor of his ½ interest.

On the contrary, the appellee corporation sold the appellant corporation equipment to be used for the sole purpose of producing embodiments of the claims of these patents (Rec. pp. 127, 128, 129). Also, the appellees made overtures at the above referred to March 6, 1941, meeting in an effort to persuade Taylor to re-join them (Rec. p. 73). Not at any time when appellants asserted a right to proceed on Taylor's ½ interest did the appellees deny that the appellants had such right (Rec. pp. 73, 139).

*April 24, 1941:* Taylor, Smith, Brown and Gorman assigned all their right, title and interest to the patents to the appellant Taylor Engines, Inc. (Rec. p. 262).

*May 29, 1941:* Taylor individually filed an action against George A. Selig, All Steel Engine Company, Inc., a California corporation, All Steel Engines, Inc., a Nevada corporation, et al., No. 320697, in the Superior Court of the State of California, in and for the City and County of San Francisco (Rec. p. 204), whereby Taylor sought to have himself declared the owner of all the right, title and interest to the said patents held by George A. Selig, or any person or persons claiming under him, on the ground, as stated above, that Selig had utterly failed to perform his obligations of financing and promoting the invention claimed in these patents, and as a consequence thereof there was a complete lack of consideration for the assignment to Selig of April 17, 1937.

Taylor was unsuccessful in this endeavor and as a result George A. Selig retained the said one-half interest in Letters Patent Numbered 2199423 and 2275478 and is therefore a co-owner of these patents with the appellant corporation.

However, as to the appellee corporation the above facts, uncontroverted on the record, clearly establish that it took nothing under the abortive September 18, 1940, agreement, and as no instrument was made of record to establish that this appellee had any claim of right from George A. Selig's ½ interest, the appellee corporation is without capacity to bring this suit and is not a proper party plaintiff-appellee.

In view of these uncontroverted facts it is respectfully urged that the trial court erred in its finding that appellant corporation was not a co-owner and in the

finding that the appellee corporation was a proper party plaintiff.

That the appellants were bona fide purchasers for value is also abundantly established by the record, and also stands uncontroverted.

As pointed out above the record is absolutely barren of any denial by the appellees on any of the numerous occasions upon which the appellants asserted ownership of Taylor's one-half interest. Not one word that could be said to constitute notice by the appellees to the appellants of any claimed adverse interest to the appellants is to be found in the entire record. In fact, as already pointed out, it was not until the latter part of 1943 that these appellees made any such claim. Which, coming as it did after strenuous activity by the appellant corporation, that resulted in the Crosley contract and an investment of some $180,000.00, on the part of appellant corporation, all of which was known to the appellees, cannot be given serious consideration for the reason that if these appellees had any claim it was barred by laches as well as acquiescence.

A clearer case of a bona fide purchaser without notice is difficult to conceive.

That the appellants were bona fide purchasers for value is likewise most abundantly established by the uncontroverted record.

Appellant Brown invested $15,000.00 of his own money (Rec. p. 129).

Appellant A. W. Gorman invested $60,000.00, of his own money (Rec. p. 139).

Appellant Smith invested $14,000.00 of his own money (Rec. p. 137).

Or, a total of $89,000.00, plus an additional $36,500.00, by appellant A. W. Gorman (Rec. p. 140).

Also, that the appellant held a bona fide interest and that such interest was acquiesced in by the then president of the appellee corporation Jesse M. Whited is established by the fact that Whited invested $400.00 of his own money in the appellant corporation (Rec. 137). Whited, it is to be remembered, was the president and an officer executing the November 1, 1940, re-conveyance to Taylor of his ½ interest.

It is a well established legal principle that the party attacking the bona fide character of a subsequent purchaser bears the burden of proof; further, it is not sufficient that an *inference* of notice is probable. It has been declared that it is necessary that notice be proved by clear and unequivocal evidence, and this is especially true in a court of equity where it has been said there should always be clear proof of actual knowledge.

Also, lack of notice and good faith are always presumed where payment of a considerable value has been proven, as in the present case. This doctrine is well established.

And, notice should be taken of the fact that the appellees failed to avail themselves of the registry statutes of the Patent Office with respect to their claim of ownership to the entire interest. These statutes are to protect the public. It has been held by numerous cases that where a party fails to register his claim he should not prevail upon other than clear and concise evidence. To hold otherwise would be to weaken the registry statutes. It should be pointed out here however, to have recorded both the assignment to the California corporation and the abortive one to the

Nevada corporation would have defeated the purposes of the Seligs in having both corporations hold evidence of title.

It is respectfully urged, therefore, that the trial court erred in finding that the appellants were not bona fide purchasers without notice and for value, and that this Court is warranted in reversing that finding.

Turning now to the third patent in suit, namely, patent number 2341488 (Rec. p. 195).

There can be no question from the record but that the appellees have no interest in and to this patent.

The uncontroverted testimony of the expert witness Baldwin Vale established that the invention disclosed and claimed in this patent is a separate and distinct concept from anything claimed and disclosed in the other two patents in suit. In other words, the invention cannot be considered as an improvement, "division, substitution or continuation" of the said invention covered by the first two patents (Rec. p. 133) as those terms are used in patent law (Rec. pp. 133, 135-136).

Further, appellee George A. Selig, stated he had refused to undertake the financing and promotion of the invention of this third patent, and as a result it was not included in the assignment to him of April 17, 1937 (Rec. p. 80).

That this Court should reverse the trial court's finding in substance to the effect that this third patent was covered by the assignment of April 17, 1937, and that the title is in the appellees would be in accord with well established patent law.

Appellants urge that as to the finding of infringement that there is not one scrap of evidence. Disregarding for

the moment the fact that the appellants have conclusively established that they are the co-owners of two patents and the sole owner of the third patent, there is no evidence to support a finding of infringement on the basis of the appellants having made or caused to be made, one single embodiment of the invention, much less any proof of having sold or used such an embodiment.

For this latter reason, as well as the facts of ownership in the appellants, it is averred that this Court should reverse the trial court's finding that the appellants have infringed said letters patent.

The principles of law with respect to invoking the doctrine of res adjudicata have been so often stated and are so well established that but a cursory check of the record is needed to show that the ruling of the trial court in admitting into evidence, over the objection of the appellants, the State Court case referred to above whereby Taylor individually sought to retake the ½ interest assigned to Selig on April 17, 1937, was in error.

There was no attempt made to lay a foundation to establish identity of parties and identity of issues.

The appellant corporation acquired its ½ interest April 24, 1941. (Rec. p. 262). The State Court action was filed on May 29, 1941. The appellant corporation, nor any of the appellants, was a party to this State court action.

The appellant corporation had registered with the Patent Office its claim to a ½ interest to these patents prior to the date of this suit being filed by Taylor. If the appellees, who were fully informed as to the activities of the appellant corporation with respect to the claim of a ½ interest to the patents, honestly believed, as the appellees now as-

sert, that the appellants were the real party in interest or a party in interest to this state Court action, the appellees had a duty to the Superior Court under the provisions of section 389 of the Code of Civil Procedure to make a motion that the appellants be made parties. The appellees made no such motion because appellees were well aware that the appellants were not interested in the state court action because it involved only the ½ interest of Selig, to which the appellants made no claim. The fact that the appellees knew of the lack of interest of the appellants is also attested by the fact of the president of the two Selig corporations, Jesse M. Whited, buying an interest in the appellant corporation. It could not be said that President Whited or appellees did not know about the appellant corporation or its existence.

For these reasons and others set out in more detail below the appellants urge this Court to reverse the finding of the trial court that this State court action was in any manner of speaking res adjudicata as to these appellants.

**2. Lack of Capacity of Plaintiffs to Sue.**

The argument under this topical heading is addressed to Assigned Errors 3, 4, 6, 9, 13 and 15 of the Specification of Errors, supra, which may be compositely stated as a single error as follows:

> "The court below erred in finding and concluding that the appellee corporation held a valid and subsisting exclusive license, still in full force and effect, under the three patents in suit, including the third patent as a change, alteration, substitution or modification of the invention of the first two patents, namely, 2199423 and 2275478, and as such licensee was entitled to all

gains and profits that might be derived by the appellent corporation from its licensee, Crosley Motors, Inc., and that the conduct of the individual appellants in forming the appellant corporation was for the purpose of defrauding the appellee corporation and rendering its property rights valueless."

**A) LACK OF CAPACITY OF APPELLEE CORPORATION TO SUE.**

The only claim to title by appellee corporation to the patents in suit is by way of an abortive exclusive license dated September 18, 1940 from George A. Selig and Lloyd M. Taylor (Rec. pp. 172-175). However, the record clearly establishes that as of the date of this purported conveyance of title, neither Selig nor Taylor possessed the capacity to make such conveyance. Consequently, the appellee All Steel Engines, Inc., *a Nevada corporation,* acquired nothing by the instrument of September 18, 1940 because the assignors had nothing to convey at that time.

The initial conveyance of patent rights was from Lloyd M. Taylor, the inventor, to George A. Selig, as promoter, and is evidenced by the assignment of record (Rec. pp. 169-171), whereby Selig acquired a one-half *(½)* interest. Thereafter, on March 23, 1940, Lloyd M. Taylor and George A. Selig jointly granted an exclusive license to the All Steel Engine Company, Inc., *a California corporation,* of which Jesse M. Whited was president and Harry G. Selig was secretary-treasurer. It is important to note that these individuals, including Forrest M. Fulton, were also the directors of the *Nevada corporation,* All Steel Engines, Inc., the appellee herein (Rec. pp. 164 and 212, respectively).

The record establishes that the *California corporation,* All Steel Engine Company, Inc., retained the exclusive license granted to it by Selig and Taylor, jointly, on March

23, 1940, referred to above, until *November 1, 1940,* at which time said *California corporation reconveyed* to Selig and Taylor individually, in the following language, all its right, title and interest in and to the patents in suit (Rec. pp. 255-256):

"Know All Men By These Presents:

"That, the All-Steel Engine Company, Inc., a corporation organized and existing under and by virtue of the laws of the State of California, the party of the first part, in consideration of the sum of Ten Dollars ($10.00), lawful money of the United States of America, and other valuable consideration, to it in hand paid by George A. Selig and Lloyd M. Taylor, of San Francisco, California, the parties of the second part, the receipt whereof is hereby acknowledged, does by these presents release, transfer, assign, sell and convey unto the said parties of the second part, their executors, administrators, and assigns, all that certain personal property described as follows, to-wit:

"All right, title and interest of, in, and to that certain patent bearing date of 7th day of May, 1940, and being Number 2,199,423, and also that certain application for a patent pending in the Dominion of Canada, bearing serial number 470,475, filed February 9th, 1940, and also two applications for letters patent pending in the United States of America, said applications bearing serial number 333,464, dated May 6th, 1940, and serial number 333,465, dated May 6, 1940.

"And also any and all right and/or license to manufacture and/or sell internal combustion engines within the limits of the United States of America and Canada under the above patents and patents pending, together with any and all other rights relating thereto.

> "It is the intention of the parties hereto to completely cancel and terminate that certain agreement dated the 23rd day of March, 1940, between the parties hereto under which an exclusive license was granted to the said party of the first part by the said parties of the second part."

It is abundantly clear that Lloyd M. Taylor demanded of the officers of these corporations a reassignment of his one-half (½) interest and that Taylor was informed and believed that the reconveyance above quoted did return to him his one-half (½) interest in the patents. The record also establishes that Taylor made this demand of reconveyance because he believed that unlawful and untruthful representations were made in an aviation magazine in October of 1940 (Rec. pp. 265a-265b) which Taylor considered to be a violation of the Corporate Securities Act. The particular statements in this article which Taylor objected to the most were to the effect that a 1,000 HP engine was being manufactured and that said engine had already been completed and put through every known block test, and that it roared through all of them with flying colors, and other exaggerated statements of like nature. All of such representations were false—no such engine was being built or contemplated—there even were no drawings that were made (Ernest Smith testimony Rec. p. 138).

That the officers of the appellee corporation well knew that the purported assignment of September 18, 1940 was null and void is established by the fact that in complying with Taylor's request for a reconveyance of his one-half (½) interest, following this publication in October, 1940, the reconveyance of November 1, 1940 was made by the

*California corporation* to Taylor. (As pointed out above, the officers of the *California corporation* referred to are the same as those for the *appellee corporation.*)

The fact that it was the intention to reconvey to Taylor his one-half (½) interest is further established, and we might say conclusively so, by the fact that Jesse M. Whited, the President of the *appellee corporation* on November 1, 1940, and also president of the All Steel Engine Company, Inc., the *California corporation,* purchased stock in the *appellant corporation* in the amount of Four Hundred Dollars ($400.00) (Rec. p. 137). This is surely the acid test as to what this President of the *two corporations* believed as to the title of the appellant corporation. In other words, had Whited believed that the appellee corporation was the owner of an exclusive license to the patents in suit, he would not have purchased stock in what is now termed by the appellees an infringer of these rights.

These appellants respectfully submit that the maxims of equity were never more applicable, namely, that one who seeks equity must do equity, and one who seeks equity must come into court with clean hands.

In this connection, it is significant to note the perfidy of certain of the officers and directors of these two corporations. *Out of one pocket* the officers and directors, and principally Jesse M. Whited as president and Harry G. Selig as secretary-treasurer of both corporations, took the aforesaid release and reconveyance of all right, title and interest in and to the patents in suit, held by the California corporation, and handed such release and reconveyance to the inventor Lloyd M. Taylor.

Now turning to *the other pocket* of the appellee corporation, we find it taking out the abortive assignment of Sep-

tember 18, 1940 and asserting in this action that it acquired all of the right, title and interest to the patents in suit by this instrument. In other words, by now asserting that, in reality, the appellee corporation actually had the interest in the patents in suit, the appellee corporation is also asserting as of November 1, 1940 it endeavored to perpetrate a fraud upon Taylor in that while its officers represented that they were reconveying to Taylor his one-half (½) interest which they represented had at all times subsequent to March 23, 1940 remained with the *California corporation,* Taylor actually acquired nothing, says the appellee corporation, on November 1, 1940.

It needs no citation of authorities to establish that one cannot pass title to something that he doesn't have. And it is clear from the record that the first assignment of patent rights by Selig and Taylor to the California corporation was made long prior to the second assignment to the Nevada corporation on September 18, 1940. Therefore, Selig and Taylor had nothing to convey on September 18, 1940 in view of the subsisting and outstanding assignment to the California corporation. Moreover, Whited and Harry G. Selig as officers of both Selig corporations (California and appellee Nevada) knew the California corporation held "all right, title and interest of, in, and to * * *" (Rec. p. 255) these patents on September 18, 1940, and therefore they knew the appellee Nevada corporation could only acquire an interest in these patents by direct assignment from the California corporation.

The burden is on the appellee Nevada corporation, in a patent infringement suit such as this, to establish its title to the patents.

*Chisholm-Ryder Co. v. Buck,* 1 Fed. Sup. 268, Aff. 65 Fed. 2nd 735;

*Electric Autolite Co. v. P. & D. Mfg. Co.,* 8 Fed. Sup. 314, Mod. 78 Fed. 2d 700 on a different point; 28 C.A. 673.

It is respectfully submitted that the appellee corporation, All Steel Engines, Inc., a Nevada corporation, has wholly failed to sustain its burden of proof of title or any interest in and to the patents in suit and, consequently, this court clearly can reverse the decision of the district court holding that the said appellee corporation is the holder of a valid and subsisting exclusive license under and with respect to the three patents in suit.

**B) LACK OF CAPACITY OF APPELLEE SELIG TO SUE.**

**(1) Co-ownership of 2199423 and 2275478.**

(a) Chain of Title in Selig.

It is conceded that the appellee Selig is, by virtue of the initial assignment from Lloyd M. Taylor, the inventor, the owner of an undivided one-half (½) interest in and to the first two patents in suit, namely, 2199423 and 2275478 (Rec. pp. 169-171).

(b) Chain of Title in Appellants.

That the appellants are bona fide purchasers for value without notice of adverse rights is clearly established in the record.

The record clearly establishes that following November 1, 1940, when his one half (½) interest in the patents in suit had been reconveyed to him, Taylor contacted Ernest L. Smith who introduced him to Alfred W. Gorman and Theodore B. Brown. These latter gentlemen organized the

appellant corporation and on the 24th day of April, 1941, Taylor transferred to the organizers, Ernest L. Smith, A. W. Gorman and Theodore B. Brown, severally, a one-fourth (¼) part of all of the interest that Taylor may have in and to patent 2199423; in and to the invention disclosed and claimed in pending patent applications 333,464 and 333465 (the latter maturing into patent 2275478 in suit), as well as a one-fourth (¼) part of the entire right, title and interest in and to the invention disclosed and claimed in pending patent application, serial number 387,410. (The latter application matured into the third patent in suit, number 2341488) (Rec. pp. 258-260).

On the same date, the 24th day of April, 1941 the aforesaid organizers, as well as Lloyd M. Taylor, transferred all of their right, title and interest in and to the patents in suit to the appellant corporation. (Rec. pp. 262-265). The instruments of assignment just referred to were duly recorded in the United States Patent Office in Liber U187, page 62 and Liber U187 page 64 and ever since such date, the appellant corporation has been vested with the ownership of the entire right, title and interest in and to the third patent in suit and of an undivided one-half (½) interest in the first two patents in suit.

In other words, by the instruments executed by Taylor on April 24th, 1941, the appellant corporation became a co-owner with the appellee George A. Selig of the first two patents in suit, namely, 2199423 and 2275478.

The record clearly establishes that the organizers of the appellant corporation were very substantial purchasers for value, and that the appellant corporation likewise was a very substantial purchaser for value of the interests acquired in the patents in suit. Reference, in this connection,

is respectfully invited to the testimony of Theodore B. Brown that he personally invested $15,000.00 in Taylor Engines, Inc., (Rec. p. 129). Alfred W. Gorman testified that his personal investment in Taylor Engines, Inc. was approximately $60,000.00 (Rec. p. 139). And Ernest L. Smith testified that his personal investment in the appellant corporation was $14,000.00 (Rec. p. 137).

Moreover, the record establishes that the appellant corporation invested approximately $165,000.00 in developing the Taylor inventions (Rec. p. 140).

The above testimony supports but one conclusion; namely, that the appellants were without notice of any adverse claim to their interests and relied in good faith upon the reconveyance of Taylor's one-half (½) interest to Taylor.

Lack of notice and good faith is presumed where payment of valuable consideration is proven.

*Pickett v. Foster,* 149 U.S. 505, 39 L.Ed. 829;
*Colo. Coal etc. Co. v. U. S.,* 123 U.S. 307;
*Hood v. Webster,* 271 N.Y. 57, 2 N.E.2d 43.

That the appellants were bona fide purchasers for value *without notice from appellees of any adverse claim thereto* is also abundantly established by the record. This court's attention is respectfully invited to the uncontroverted testimony of Alfred W. Gorman, as follows (Rec. p. 139):

> "* * * That at the meeting in Mr. Watkins' office on March 6, 1941, Mr. Harry Selig was told by me that we were going ahead with the Taylor half interest and the new developments of Taylor—* * *
> I told Mr. Selig that we were going ahead with the Taylor half interest and the development of Mr. Taylor's ideas; Mr. Harry Selig had just made the statement that irrespective of what Mr. Taylor did, that he

> and his associates were going ahead on the half interest owned by George Selig, and I made the statement that we would go ahead on the half interest of Taylor and the development of his new idea; Mr. *George Selig* made no reply, he said nothing, he just listened politely."

The court's attention also is respectfully invited to the testimony of Harry G. Selig, secretary-treasurer of appellee corporation as follows: (Referring to the March 6th, 1941 meeting in Mr. Watkins' office)

> "Surr told us that they were *forming a new company* and he laid down some conditions under which they would let us come in as minority stockholders, All Steel Engines, as minority stockholders; * * *" (Rec. p. 73)

The above direct testimony of Harry G. Selig, when considered with the testimony of Alfred W. Gorman which stands uncontroverted, to the effect that at this same meeting of March 6th, 1941 in Mr. Watkins' office (Rec. p. 139), "that at the meeting in Mr. Watkins' office on March 6, 1941, Mr. Harry Selig was told by me that we were going ahead with the Taylor half interest and the new developments of Taylor and I told Selig that we were going ahead with the Taylor half interest and the development of Mr. Taylor's ideas" which was just after Mr. Selig had told Mr. Gorman that irrespective of what Taylor did, that he and his associates were going ahead on the half interest owned by George Selig, it is clear that the appellees had ample opportunity to deny the rights of appellants and to apprise appellants of their claims. In other words, considering the substantial amounts invested personally by the individual appellants Smith, Gorman and Brown and

the considerable expenditures of the appellant corporation, this court may properly conclude that these appellants were actually bona fide purchasers for value without notice of the adverse present claims of the appellees, particularly the appellee corporation.

The party attacking the bona fide character of a subsequent purchaser bears the burden of proving bad faith or notice of outstanding interest.

*Cities Service Oil Co. v. Dunlap,* 308 U.S. 208, 84 L.Ed. 196;

*Colo. Coal etc. Co. v. U. S.,* 123 U.S. 307;

*Grant v. Land Co.* (C.C.A. 7th), 82 Fed. 381, 40 L.R.A. 393;

*U. S. v. Wythe Co. etc.,* 11 F.2d 971.

It is not sufficient that an inference of notice is probable, it has been declared to be necessary and unquestionable that notice has been proven by clear and unequivocal evidence.

*Sweetland v. Buell,* 164 N.Y. 541, 58 N.E. 663.

**(2) Acquiescence.**

That appellees were well aware of the desirability of recording an assignment of an interest in a patent is shown by the fact that the original assignment made to George A. Selig, appellee, by Taylor of a one-half (½) interest in the first patent in suit was recorded in the United States Patent Office (Rec. p. 172).

As stated above, the appellants, besides notifying the appellees directly of their claim and right to proceed in the manner in which they have, also placed the assignments

of April 24, 1941, supra, of record in the United States Patent Office and did everything possible, therefore, to place the appellees on notice of appellants' rights.

The cases are legion holding that an estoppel may arise under certain circumstances from silence or inaction as well as from words or action. The principle underlying each estoppel is embodied in the maxim "One who is silent when he ought to speak will not be heard to speak when he ought to be silent."

*Eltinge v. Santos,* 171 Cal. 278; 152 P. 915;
*McDonald v. Kansas City etc. Co.* (C.C.A. 8), 149 F. 360, 8 L.R.A. (N.S.) 1110.

Silence, when there is a duty to speak, is deemed equivalent to concealment, or it may amount to the adoption of, or acquiescence in, the statement of another, as where a part owner of personalty makes no objection to his co-owner's statements with reference to the interest of a third person in the property, although he is present when such statements are made and hears and understands them.

*Newhall v. Hatch,* 134 Cal. 269; 66 P.2d 66;
*Kurtz v. Farrington,* 104 Conn. 257, 132 A. 540;
*Rothschild v. Title Guaranty & T. Co.,* 204 N.Y. 458, 97 N.E. 874.

The courts are specially disposed to uphold a claim of estoppel by silence or inaction where one party with full knowledge of the facts stood by without asserting his right or raising any objection while the other party, acting on the faith of such apparent acquiescence incurred large expenditures which will be wholly or partially lost if such rights or obligations are subsequently given effect.

*Gildersleeve v. New Mexico Min. Co.,* 161 U.S. 573, 40 L.Ed. 812;

*Cleveland Terminal and Valley R. Co. v. State,* 80 Ohio State, 251, 97 N.E. 967.

The rule is well established and recognized that where a party with full knowledge, or sufficient notice or means of knowledge of his rights and of all of the material facts remains inactive for considerable time or abstains from impeaching a contract or transaction, or freely does what amounts to recognition thereof as existing, or acts in a manner inconsistent with its repudiation and so as to affect or interfere with the relation and situation of parties, so that the other party is induced to suppose that it is recognized, this amounts to acquiescence of the transaction, although originally impeachable, becomes unimpeachable. The principle that an estoppel may be raised by acquiescence where a party aware of his own rights sees the other party act upon a mistaken notion of his rights.

*Kennedy's Est.,* 321 Pa. 225, 183 A. 791;

*Philadelphia etc. Co. v. Schmidt,* 251 Pa. 351, 98 A. 964, citing R.C.L.;

*Presque Isle County v. Presque Isle County Sav. Bank,* 315 Mich. 479, 24 N.W.2d 186, cit. Amer. Juris;

*Edwards v. Belknap,* 166 P.2d 451;

*Bates v. Hall,* 305 Ky. 467, 204 S.W.2d 487.

It is submitted, therefore, that the appellees, by their silence, are estopped at this late date to assert any rights adverse to the appellants herein.

**C) APPELLEES HAVE NO TITLE TO 2341488.**

**(1) Appellants' Title.**

As pointed out above, the appellant corporation, by mesne assignments, acquired the entire right, title and interest in and to the third patent in suit, number 2341488, by written instrument of assignment on the 24th day of April, 1941 (Rec. pp. 262-265). The appellant corporation stands on the records of the United States Patent Office as the record owner of this third patent in suit (Liber U187 p. 64) (Rec. p. 265). As pointed out above, the acquisition by these appellants of the third patent in suit was by a bona fide purchase for valuable consideration without notice of any adverse claim by these appellees in and to such third patent in suit, or any of them.

**(2) Appellee Selig Abandoned Invention of Patent 2341488.**

The record clearly establishes that George A. Selig, who financially assisted Lloyd M. Taylor in the solicitation and procurement of the first two patents in suit, namely 2199423 and 2275478, testified on cross examination as follows:

> "None of the $700 that I paid for the patent applications went toward the issuance of the '488 patent." (Rec. pp. 94-95)
>
> "As to exhibit 6 (patent No. 2341488) * * * I knew nothing about the development of the engine which is represented in plaintiffs' exhibit number 6 except that at the time we developed the first engine this particular system was considered and *discarded* because it appeared to be too cumbersome, in production it would be too costly and it provided possibilities of new bugs, for example, parts of this were bolted together, whereas the other is integrally one particular unit, it is complete, this, in the opinion of some, may have ad-

vantages over the other, I do not know * * *." (Rec. p. 80)

Consequently, this court properly can reverse the ruling of the district court that these appellants, and each of them, have infringed upon the third patent in suit, namely 2341488, for the dual reason that neither of the plaintiffs George A. Selig, nor his licensee, the appellee corporation, have the capacity to sue as owners or licensees of said third patent not only because the *appellee Selig had abandoned and discarded the invention* therein disclosed and claimed, had not paid for the patent application therefor as required by paragraph II of the initial assignment (Rec. pp. 170-171) requiring the expense of the applications to be paid for by the appellee Selig, and because of the uncontradicted and uncontroverted testimony of the patent expert Vale that the invention of the third patent in suit, number 2341488, was a *distinct departure from the initial invention* and could not be considered an improvement thereof, and, further, the appellant corporation, Taylor Engines, Inc., was the sole owner of the entire right, title and interest in and to the invention described and claimed in said third patent as well as of the patent itself as evidenced by the title records of the United States patent office, Liber U187 page 64, Record pages 262-265, defendants' exhibit C.

**(3) Appellee's Asserted Title.**

As above set forth, the appellees have made a specious claim to title to patent number 2341488 by virtue of an unsound, anomalous decision of the Supreme Court of the State of California. This Supreme Court decision was founded on a misinterpretation of the initial or original

assignment from Taylor to Selig (Rec. pp. 169-171) wherein the Supreme Court misapplied *to the Letters Patent* the modifying terminology *relating* to the *pending patent application* in such instrument of assignment. In other words, the Supreme Court used the phraseology relating *to the patent application* namely, "including each and every letters patent granted on any application which is a division, substitution for or continuation of said *parent application*" and held that such phraseology was applicable *to the letters patent rather than* to the application, per se.

Moreover, the appellees assert that the abortive license of September 18, 1940, which the Supreme Court construed in connection with the initial assignment from Taylor to Selig, included the invention of the third patent in suit. As pointed out above, the patent expert Vale testified without contradiction and his testimony is nowhere controverted in the record, that the invention of the third patent in suit was *a distinct departure* from the inventions of the first two patents (Rec. pp. 135-136) and, consequently, the invention of the third patent in suit and the patent itself cannot properly be concluded to be included in the abortive exclusive license, which license was retained by the officers of the appellee corporation by fraudulent dealing with Taylor in November of 1940.

**D) ISSUE OF TITLE NOT RES ADJUDICATA.**

It is well settled that to lay a foundation for res adjudicata and to sustain the plea thereof, it must be shown that the parties to the previous action are the same as the parties to the pending action, or that they are in privity, and that the issues are the same. This rule is made statutory in the State of California.

*Harrison v. Remington Paper Co.,* 140 U.S. 385, 394, 400;

*30 Am. Juris.* Section 278, page 995;

*Section 1908,* C.C.P. of the State of California.

The state court decisions in the proceedings bearing the number 302607, brought by Lloyd M. Taylor against All Steel Engine Company, Inc., a California corporation, et al., establishes on its face that these appellants, nor any one of them, were not parties to such action. Moreover, the testimony of Ernest L. Smith, president of the appellant corporation, called by the plaintiff below under Rule 43, (B) of the Rules of Civil Procedure, establishes that there was no privity between these appellants, or any of them, with any party to said state court action. This testimony, having been elicited from plaintiffs' own witnesses and not having been impeached or contradicted in any manner whatsoever, is binding upon the appellees herein. This testimony is as follows:

> "I was present in the state court during the trial of the action brought in the name of Taylor; the costs of that action were not advanced by Taylor Engines; Taylor Engines did not put up any money; there is a credit on the books in the name of Taylor, his own money that he is credited with; his advance to his own credit on our books; he had the money already in the organization and it was his, he was credited with that amount of money; the money was paid out to Taylor it was not paid to Vincent Surr as far as I know; * * *" (Rec. p. 121)

In the same vein, the testimony of Brotherhood, also called by the plaintiffs below under Rule 43(B) of the

Rules of the Civil Procedure established that there was no privity between these appellants and Lloyd M. Taylor in said state court action. Mr. Brotherhood's testimony is as follows:

> "* * * that in the state court action of Taylor v. All Steel Engines, Inc. and the Seligs he was not at the trial; the company did not pay anything on that trial; the company's books show that Lloyd Taylor had a credit on the books and that some time in 1943 there were some checks drawn payable to Mr. Surr and were charged to Lloyd Taylor's account." (Rec. pp. 121-122)

Further, on this question of privity of these appellants to either Lloyd M. Taylor or other parties to the above referred to state court action, this court's attention is respectfully invited to the following decisions:

*Litchfield v. Goodnow,* 123 U.S. 549, 30 Law Ed. 199;

*Old Dominion Co. etc. v. Bigelow,* 3 Mass. 159, 89 NE193;

*Rumford Chem. Works v. Hygenic Co.,* 215 U.S. 156, 54 Law. Ed. 137.

In the *Rumford Chemical Works* case, supra, the Supreme Court stated in part:

> "It appears that the NY company contributed to the expenses of the former case. But that fact alone is not enough to warrant a different result. The agreement disclosed in 170 Fed. 523 was not before the court. We may reject as extravagance the suggestion that the contribution may have been made from charitable motives, and assume that it was induced by reason of business and indirect interest; but it was not shown that, as between the present and former defendant even Hygenic Co. had the right to intermeddle in any

way with the conduct of the case. The Hygenic Co. would have been glad to see the Rumford patent declared void, and were willing to pay something to that end. *That was all, and that did not make them privies;* and therefore the Clotworth deposition was not admissible against them. Litchfield v. Goodnow, 123 U.S. 549, 550, 31 Law Ed. 199, 201, 8 Sup.Ct. 210." (Emphasis is supplied)

In other words, even if these appellees had established that the appellants individually or as a corporation had contributed to the expense of Taylor in the state court decision, that fact alone would not make them privies. But, of course, the record abundantly establishes that these appellants did not make any contributions to Taylor in the prosecution of the state court action referred to.

Moreover, even if these appellants had been parties to the state court action of Lloyd M. Taylor, the evidence and decision in the Taylor action are not admissible in this action because the issues in the two actions are not the same. The law is well settled that before prior actions can be admitted in evidence as res adjudicata, the issues in the two actions must be the same.

*U. S. v. Read Co.,* 183 Fed. 427 (Mod. on different point);

*Bigelow v. Old Dominion Co.,* 225 U.S. 111;

*Harrison v. Remington Paper Co.,* 140 Fed. 385.

In this state court action *the courts were not called upon to decide the import and effect of the November 1, 1940 reconveyance to Taylor; the instrument under which appellants claim title in the present action.*

It will only take a cursory examination by this court of the state court decision to determine that the issues involved in the Taylor state court action were the reacquisition by Taylor of the one-half (½) interest that he had assigned originally to George A. Selig as well as the acquisition of any interest that the All Steel companies, both California and Nevada corporations, had acquired from George A. Selig. The half interest of Lloyd M. Taylor, which the appellant corporation acquired as hereinabove stated, was not in issue in the state court action whatsoever.

On the other hand, in the present action, the one-half (½) interest of Taylor, which was transferred to the appellant corporation, is at issue on the question of infringement and because by such acquisition of Taylor's one-half (½) interest the appellant corporation became a co-owner with appellee George A. Selig of a one-half (½) interest in the first two patents in suit, number 2199423 and 2275478, and became the owner of the entire interest in the third patent in suit, number 2341488. Moreover, the question of infringement is involved in the present action and it was not involved in the state court actions.

Consequently, under the foregoing authorities, this court can properly rule that the court below erroneously admitted the state court decisions as against these appellants and erroneously held that these appellants were "parties in interest" in the state court action.

Under the doctrine of res adjudicata, a judgment may be regarded as conclusive *only* between the parties and their successors in interest by title acquired *subsequent* to the commencement of the action. Therefore, a person to whom a party to an action has made an assignment of granted

property or interest therein *before* the commencement of the action is not regarded as in privy with the assignor or grantors so as to be affected by judgment rendered against the assignor or grantor in the subsequent action.

30 *Am. Juris.* page 959, 960;

*Chase Nat'l Bank v. Norwalk,* 291 U.S. 431, 78 Law Ed. 894;

*Postal Tele. etc. Co. v. Newport,* 247 U.S. 464, 62 Law. Ed. 1215.

In the case at bar, the evidence establishes that the acquisition of Taylor's interest in the patents in suit was acquired on April 24, 1941 more than a month prior to the commencement of the state court action and *not subsequent* to the commencement of that action. Accordingly, this court properly can conclude on this ground that the court below erred in admitting the state court decisions as res adjudicata against these appellants.

## V.

## NON-INFRINGEMENT

The argument under this topical heading is addressed to assigned errors 1, 2, as well as 5 and 15 (as to infringement), of the specifications of errors, supra, which particular errors compositely may be stated as a single error as follows:

That the court below erred in holding that these appellants, and each of them, have infringed and now are infringing upon the patents in suit.

At the outset, the court's attention is respectfully invited to the cogent fact that the record is barren of any

proof of infringement on the part of these appellants, or any one of them.

The plaintiffs below introduced no physical exhibit of any engine which was claimed to have been made, sold or used by these appellants nor by any licensee of these appellants, nor did plaintiffs below apply any claim of any one of the patents in suit against or upon any structure, machine, engine or other physical embodiment of any Taylor engine to establish the plaintiffs' charge of infringement.

In view of the well-settled principle of patent law that the burden is upon plaintiff to establish infringement of the patents sued upon by a preponderance of the evidence, it is abundantly clear that the court below erred in ruling that these defendants and each of them, have infringed and were continuing to infringe upon the patents in suit—since not a scintilla of evidence was even offered let alone introduced in evidence on the subject of infringement.

*Seymour v. Osborne,* 78 U.S. 516, 20 Lawyers Ed. 33;

*Magnavox v. Hart & Reno,* 73 Fed.2d 443 (C.C.A. 9);

*Bates v. Coe,* 98 U.S. 31, 25 Lawyers Ed. 68.

To sustain the burden of proof of infringement, the party claiming infringement must show indentity of result, identity of means, and identity of function of the means between the alleged infringing device and the claims of the patent.

*General Electric Co. v. Parr Elec. Co.,* 21 Fed. Sub. 47;

*Continental Paper Bag Co. v. Eastern Paper Bag Co.,* 210 U.S. 405, 51 Law. Ed. 922.

It is submitted that, without question, the court below erred in its judgment of infringement, and that this court is clearly warranted in reversing the judgment on such issue of infringement.

Aside from the total lack of evidence of any physical embodiment of the invention of the claims of the patents sued upon, the plaintiffs below wholly failed to sustain its burden of proof of infringement for the reason that these appellants are, from the established evidence of record, tenants in common with the plaintiff, George A. Selig, of patents 2199423 and 2275478. In this connection, reference is especially invited to Vol. II of the Transcript of Record (Book of Exhibits )(Rec. pp. 258-265), defendants' exhibits B and C, which as stated above, transferred all of the interest of Lloyd M. Taylor in patent number 2199423 and pending application 333465 which matured into patent number 2275478, by mesne assignments to the appellant corporation, as well as the transfer of the entire right, title and interest in and to patent application number 387410 which matured into patent number 2341488, in suit. Both of these assignments just alluded to are recorded in the United States patent office, pursuant to 35 U.S.C.A. 47, in Liber U187, page 62, and Liber U187, page 64, as indicated in the record (Rec. p. 261 and 265, respectively).

The law is well-settled that a part owner of a patent, such as the appellee George A. Selig as to patents 2199423 and 2275478, has no right to enjoin infringement of the patents by his co-owner.

*Bell etc. v. Bass,* 262 Fed. 131.

Tenants in common under a patent right will arise whenever the sole owner of such a right in a territory of the

United States or a part thereof conveys to another an undivided interest in the whole or part of the right which he owns. The ordinary incidents of tenants in common thereafter appertain to such ownership and each owner becomes entitled to use the invention without accounting to the other. Nor, can there be any recovery of profits or damages against any licensee of such co-owner at the suit of any co-tenant of such licensor.

*Drake v. Hall,* 220 Fed. 905;

*Central Brass etc. v. Stuber,* 220 Fed. 909;

*Halbert v. Quaker State Oil etc. Co.,* 28 Fed. Sub. 544, 548.

It is therefore submitted that in view of the foregoing authorities that neither the plaintiff, George A. Selig, nor any licensee of his, can maintain an action to enjoin infringement of patents 2199423 and 2275478, in suit as against the appellant corporation, or any of the individual appellants who are officers of the appellant corporation. The final judgment of the court below holding that these appellants, and each of them, have infringed upon patents 2199423 and 2275478 should, therefore, be reversed and the writ of injunction issued herein be vacated.

As to patent number 2341488 in suit, the record clearly establishes that the appellant corporation is the owner of the entire right, title and interest in and to said patent and, therefore, under the patent laws of the United States is vested with the sole right to make, use and sell the invention and embodiments thereof and cannot be enjoined from so doing. That is the right accorded to all patentees and the plaintiffs are not record owners in the patent office of

patent number 2341488 and rightfully have no claim thereto (Rec. p. 197).

With respect to the right asserted by the appellee corporation to exclude others from making, selling or using embodiments of the invention disclosed in patent number 2341488, the court's attention is respectfully invited to the testimony of the patent expert, Baldwin Vale (Rec. pp. 132) as follows:

> "That with respect to the last patent, plaintiffs' exhibit number 6, the structure shown in the drawings of that patent with relation to the structure of the first patent is a distinct departure both in structure and mode of assembly; that with respect to the claims of the third patent, they were not in this form in either of the other patents * * *"
>
> "The characteristics of the third patent, number '488, is that it consists of three distinct units—the crankcase, which forms the base of the engine, to which is bolted an oil pan, which also completes the main bearing for the crankshaft, and then above that is the cylinder head unit." (Rec. p. 132)

The above testimony of the patent expert, Baldwin Vale, was at no time controverted throughout the trial, and standing uncontradicted clearly establishes that the invention of the third patent in suit, namely, patent number 2341488, cannot in any sense of the word be considered an improvement or change in the invention of the first and second patents in suit and, therefore, cannot be properly held to be included in the purported exclusive license of September 18, 1940 which the court below erroneously ruled to be a valid and subsisting exclusive license in the appellee corporation.

## VI.

## LACHES

This portion of the argument is addressed to Assigned Error 15 of the Specification of Errors, supra, with respect to the finding that the appellees, and particularly the appellee corporation was not guilty of laches.

*As to the issue of laches,* which were joined in issue on the trial below, this court is warranted in reversing the inferred ruling of the court below in not holding that the appellee corporation was guilty of laches in bringing this action because over five and a half years elapsed from the date of first knowledge of the appellee and appellee corporation, namely, as early as March 6th, 1941, before the commencement of the present action in November, 1946. The authorities are legion that asserted owners of patent rights cannot sleep on their rights and permit others to expend large sums of money and make substantial changes of position, and then seek recovery in a court of equity. Some of the principal authorities on this subject are as follows:

*Gillons v. Shell Oil Co.,* 32 U.S.P.Q. 1 (C.C.A. 9) Fed.2d;

*Kelley v. Boettcher,* 85 Fed. 55, 62;

*Gallaher v. Cadwell,* 145 U.S. 368, 36 Law Ed. 738.

The record clearly establishes that subsequent to March 6, 1941 and commencing in the latter part of April, 1941 the appellant corporation expended considerable sums of money amounting approximately to one hundred sixty thousand dollars ($160,000.00) in connection with the patents in suit and the inventions of Lloyd M. Taylor (Rec. pp. 139-140). Mr. Alfred W. Gorman, vice-president of

appellant corporation testified that Taylor Engines, Inc. had invested approximately $165,000.00 in developing the Taylor inventions; that Mr. Taylor and some of his associates were sent east in connection with the invention and that the value of the stock interest granted to Lloyd Taylor for the transfer of his rights to the patents in suit and which Mr. Taylor sold to Mr. Gorman and the corporation amounted to thirty-eight thousand five hundred dollars ($38,500.00). Thus, it is clearly established that from the time that the appellee corporation and its officers knew of the interest of the appellant corporation in the Taylor Engines, Inc., and its organizers, that is to say in the early part of March, 1941 when the organizers had expended very little money and the corporation had spent nothing the appellee corporation and its officers and directors sat idly by and permitted the appellant corporation to expend considerable moneys in developing the Taylor inventions and under the patents in suit.

The foregoing authorities are uniform to the effect that laches does not grow out of the mere passage of time but it is founded upon the inequity of permitting a claim such as the claim of the appellee corporation to the patents in suit to be enforced—an inequity founded upon the change in the condition or relations of the property involved.

Reference in this connection is made to the case of *Westo-Chipewa Pump Co. v. Delaware etc. Co.,* 64 Fed.2d 185, wherein it was established that the corporation had expended some eighty-five thousand dollars ($85,000.00) and manufactured some 27,000 pumping units and had equipped a new factory with an expenditure of a quarter of a million dollars. The court in the *Chipewa Pump Co.* case held that

it would virtually destroy this entire investment if an injunction were to issue and therefore refused the injunction in consequence of plaintiffs long delay in asserting its rights.

## VII.

## CONCLUSION

From the foregoing, it is respectfully submitted that this court should reverse the ruling of the court below not only as to the issue of capacity of the appellee corporation to institute this action but also as to the capacity of the appellee George A. Selig to institute the action by reason of the vested rights of the appellant corporation in the third patent in suit and as tenants in common with George A. Selig as to the other two patents in suit; that it should reverse the lower court's ruling that the state court decisions are res adjudicata against these appellants; that it should reverse the ruling of the court below that these defendants, and each of them, have infringed upon the three patents in suit; and should order that the writ of injunction issued herein be vacated.

Respectfully submitted,

WHITE & WHITE

By .....

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*Attorneys for Appellants.*